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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000247

SIPDIS

USDOE FOR CHARLES WASHINGTON  
USDOC FOR ADVOCACY CENTER AND  
4212/ITA/MAC/OEURA/CPD/DDEFALCO

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SUBJECT: TURKEY'S THRACE DEVELOPMENT COMPANY AND BOSPHORUS BYPASS - ADVOCACY QUESTION

Classified By: ECONOMIC COUNSELOR THOMAS GOLDBERGER FOR REASONS 1.4 (B) AND (D)

This is an action request. Please see Para 4.

1. (SBU) Thrace Development Company (TDC) Chairman Howard Lowe called on Ambassador December 8 to update us on TDC's proposed oil pipeline project that would be an alternative "bypass" route across Turkish Thrace for oil exported from the Black Sea that currently passes by tanker through the Turkish Straits. Lowe described his continued frustration with no movement on TDC's longstanding permit application to the GOT for the proposed project. (TDC, with USG advocacy support, has asked the Turkish Government to issue it a "conditional permit" that would allow it time to demonstrate the financial and environmental feasibility of the project - or at a minimum to give TDC a timely yes or no response.) Asked about TDC's Turkish partners, Lowe disclosed for the first time that Mehmet Karamehmet, Chairman of the Cukurova Group, was a partner in TDC. We noted to Lowe that some U.S. companies had experienced questionable, even threatening, behavior in their dealings with Mr. Karamehmet and his companies, and advised Mr. Lowe to exercise extreme caution in connection with Karamehmet. Lowe said that Karamehmet had declined an offer to be taken out of the partnership, noting that Karamehmet's share constituted 16-17 %.

2. (C) Karamehmet is known to Post as an unreliable and unsavory business partner. Post knows of one U.S. firm that was subject to unethical and intimidating tactics, including death threats, to force a settlement of a business dispute favorable to Karamehmet. Because of this, Post has advised U.S. firms against partnering with Karamehmet. While his extensive Cukurova Group has significant interests in some good assets (for example, Yapi Kredi Bank and Turkcell, the major mobile telephone operator), it has been involved in bank failures and murky financial transactions and dealings. These include the failure and takeover of Pamukbank in 2002 and dubious lending from Yapi Kredi to other Cukurova Group companies, resulting in \$2 billion bad debt on the bank's balance sheet. Turkish bank regulators are obliging Cukurova Group to make good on this debt, but to date the group has been unable to do so. Also, Cukurova Group is ineligible to hold a bank license because of the failure of Pamukbank. Karamehmet has also been involved in a nasty, public battle for control of Turkcell with the company's Finnish/Swedish partners.

3. (SBU) Our concerns were further heightened following a January 12 conversation with Econoff in which TDC's locally retained consultant, lawyer Yilmaz Oz, revealed that the other TDC partners included former Kazakh Prime Minister Nurlan Balgimbaev and Servet Harunoglu, Fintraco Construction Chairman. Embassy notes that the former has been linked in court documents to the FCPA case against James Giffen related to Kazakhstan, but is not in a position to evaluate this information. Lowe and his partners all appear to have oil and other business experience in Kazakhstan. Howard Lowe last called EconOff on December 21 to check on developments (or lack of) on Bosphorus bypass projects. He said that TDC was making progress in discussions with Gazprom for a potential oil throughput guarantee. Lowe again expressed frustration on lack of progress from the GOT on permitting their bypass project.

4. (SBU) Action request: Post has advised Lowe to exercise extreme caution in its dealings with Karamehmet. Given this new information about financial interests behind TDC, post would appreciate Washington's updated guidance on how to pursue the company's advocacy request.

5. (SBU) Background: TDC applied for a permit for its trans-Thrace (Kiyikoy-Ibrikbaba/Saros) project in June 2003. A Transneft (partnered with Turkish Anadolu Construction) backed project filed an application for a copycat trans-Thrace project in June 2004. While MENR officials agree in principle with the Embassy's consistent message that the market - not governments - should pick potential Bosphorus bypass projects; in practice, the GOT Council of Ministers has held up permits pending approval of an acceptable route. The GOT has expressed concern about lack of oil throughput guarantees and environment impact - in

particular associated with the trans-Thrace route. The GOT has indicated a preference for the Samsun-Ceyhan route and has sought to gain Russian support for this route. (Note: Prime Minister Erdogan just returned from Moscow, seeking a broad range of energy, economic, and political agreements. They do not appear to have reached any solid agreement on Bosphorus bypass. End Note) In his meeting with the Ambassador, Howard Lowe asserted that the Samsun-Ceyhan route was not competitive from both a cost and technical basis, relative to TDC's proposed route and project. He asserted that the high elevation passage would create extra costs and/or limits to pipeline size that would affect capacity. Additional reporting on Bosphorus bypass issues will be provided septel.

EDELMAN